



REPORT OF THE COMMITTEE OF INDEPENDENT DIRECTORS OF PADMANABH INDUSTRIES LIMITED ("COMPANY") RECOMMENDING THE DRAFT SCHEME OF REDUCTION OF SHARE CAPITAL BETWEEN THE COMPANY AND ITS SHAREHOLDERS

Members Present:

Mr. Viren Makwana - Chairperson
Mr. Pranav Vajani - Member

To,
The Board of Directors,
Padmanabh Industries Limited
203, Abhishek Complex, Mamta Park Society,
B/h Navgujarat College, Ashram Road,
Ahmedabad - 380014

Background:

The meeting of the Independent Directors of the Company was held on 30th June, 2023 to consider and recommend the draft Scheme Reduction of Capital ("Scheme") between the Company and its shareholders, under the provisions of Section 52 and Section 66 of the Companies Act, 2013, (including any statutory modification(s) or re-enactment thereof for the time being in force and the rules made there under (the "Act"). Regulation 37 of SEBI (LODR) Regulation, 2015 and specifically the Hon'ble National Company Law Tribunal (Procedure for Reduction of Share Capital of Company) Rules, 2016 ("Reduction Rules"), which permits the Company to undertake a reduction of its share capital.

This report of the Committee of Independent Director is made to comply with the requirements of the SEBI Master Circular No. SEBI/ HO/CFD/ DIL1/CIR/P/2020/249 dated December 22, 2020, issued under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended from time to time.

The following documents were placed before the Committee of independent Directors:

- 1) Scheme of Capital Reduction of Padmanabh Industries Limited.
- 2) Draft Certificate for non-applicability of the requirement of obtaining the valuation report obtained from the Registered Valuer.
- 3) Fairness Opinion obtained from an Independent Merchant Banker, M/s. Swaraj Shares & Securities Private Limited ("Fairness Opinion").
- 4) Auditor's Certificate issued by M/s. VSSB & Associates., Chartered Accountants, Statutory Auditors of the Company, pursuant to Para 5 of Part IA of SEBI Master Circular No. SEBI/HO/CFD/DIL1/CIR/P/2020/249 dated December 22, 2020, confirming that the accounting treatment in the scheme is in Compliance.
- 5) Undertaking duly certified by the Statutory Auditor dated regarding non - applicability of

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- sub para 10(a) and (b) of Part I of SEBI Master Circular No. SEBI/HO/CFD/DIL1/CIR/P/2020/249 dated December 22, 2020.
- 6) Other Annexures for the Draft Scheme of Reduction of Capital.

Salient features of the Draft Scheme:

- i. As per the provisions of section 52 and 66 of Companies Act, 2013 read with National Company Law Tribunal (Procedure for Reduction of Share Capital of Company) Rule 2016 and other applicable provisions if any, upon the Scheme coming into effect from the Appointed Date, by the Effective Date and after securing necessary approvals and permissions, the accumulated losses of Rs. Rs. 6,08,26,584/- (Rupees Six Crores Eight Lakhs Twenty-Six Thousand Five Hundred and Eighty-Four) as on 31 March 2023. set of to the extent of the share capital cancelled i.e. 98 % of Rs. 5,95,59,500/- (Rupees Five Crores Ninety Five Lakhs and Fifty Nine Thousand Five Hundred Only) with effect from the appointed date.
- ii. The Scheme seeks to reduce or otherwise alter the issued, subscribed and paid up share capital of the Company and the same will therefore remain reduced as a result of the Scheme, on the Effective Date and after securing necessary approvals and permissions the Company shall reduce its fully paid up equity share capital from Rs. 6,07,75,000/- (Six Crores Seven lakhs Seventy Five Thousand Only) divided into 60,77,500 (Sixty lakhs Seventy Seven Thousand Five Hundred) Equity Shares of Rs. 10/- (Rupees Ten Only) each to Rs. 12,15,500/- (Rupees Twelve Lakhs Fifteen Thousand Five Hundred Only) divided into 1,21,550 (One Lakh Twenty One Thousand Five Hundred and Fifty) Equity Shares of Rs. 10/- (Rupees Ten Only) each. Whereby 98% of existing shares capital i.e. 59,55,950 (Fifty Nine Lakhs Fifty Five thousand Nine Hundred and Fifty) Equity Shares of Rs. 10/- (Rupees Ten Only) each is extinguished and cancelled.
- iii. The capital so reduced will be utilized to write off the accumulated losses of the Company up to the Reduction of Paid-up Share Capital and the Remain debit balance after the reduction of share capital will be on debit side of the Profit and Loss Account.
- iv. The Committee of Independent Directors reviewed the Fairness Opinion and noted the recommendations made therein. Further, the Fairness Opinion confirmed that the Scheme is fair to the shareholders of the Company.
- v. Further, the Committee of independent Directors reviewed the Accounting Treatment Certificate and noted that that the accounting treatment in the Scheme is in line with Generally Accepted Accounting Principles.
- vi. Further this Scheme will help to achieve a rational structure which is commensurate with its remaining business and assets.

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Reason for Losses:

As per the review of Audit Reports of the Company it Came to know that the said accumulated losses of Rs. 13,73,26,586/- of the Company as on 31st March, 2023 due to the Business losses including the carried forwarded losses of the Previous years except the losses of Rs. 82,83,666/- due to the written off sundry balances in the year 2021-22.

Proposed Scheme:

The independent Director's Committee reviewed and considered the proposed scheme on the following grounds:

i. Need and Rationale for the reduction of share capital:

- a. The proposed reduction of the equity share capital of Company is being undertaken in accordance with the provisions of Section 66 read with Section 52 of the Act and the rules made thereunder and specifically the Rules, which permit a Company to undertake a reduction of its share capital in any manner, read with the Listing Regulations (as defined hereinafter) and the SEBI Circular (as defined hereinafter).
- b. In view of the accumulated carry forward losses that the Company's Balance Sheet is not reflecting at its actual value and with the future prospect of growth and value addition to the shareholders, the Company has proposed to clean its books thereby enabling the Company to raise future resources considering the expansion program that has been considered for development would need huge amount of investment both in terms of equity as well as debt.
- c. Continuous Losses have substantially wiped off the value represented by the Share Capital thus the financial statements do not reflect the correct picture of the health of the Company. This has given rise to the need to readjust the relation between capital and assets and to accurately and fairly reflect the liabilities and assets of the Company in its books of accounts. The Company has evaluated the effect of this upon the Company's functioning and has carefully examined different options available to the Company. After detailed deliberations, the Board of Directors of the Company is of the view that reduction of capital in accordance with section 66 of the Companies Act, 2013 read with National Company Law Tribunal (Procedure for reduction of share capital of Company) Rules, 2016, is the only practical and economically efficient legal option available to the Company. In order to reflect its assets and liabilities at their real value and maximize its business value, the Company proposes to reduce the equity share capital of the Company in accordance with Section 66 of the Companies Act, 2013 read with National Company Law Tribunal (Procedure for reduction of share capital of Company) Rules, 2016.

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- d. The Scheme of Reduction of Share Capital is presented with a view to achieve Restructuring of the Company which would result in reducing of the accumulated losses of the Company and improvement in financial health as more business activities shall be brought in to the Company thereby preventing it from becoming a sick Company.
- e. Upon the Scheme coming into effect from the appointed date, by the effective date and after securing necessary approvals and permissions, accumulated losses of Rs. 6,08,26,584/- (Rupees Six Crores Eight Lakhs Twenty-Six Thousand Five Hundred and Eighty-Four) as on 31st March 2023 will be set of to the extent of the share capital cancelled i.e. 98% of 6,07,75,000/- (Six Crores Seven lakhs Seventy Five Thousand Only) which will amount to Rs. 5,95,59,500/- (Rupees Five Crores Ninety-Five Lakhs and Fifty-Nine Thousand Five Hundred Only) with effect from the appointed date.
- f. The Board of Directors of the Company in its meeting held on 30th June, 2023 inter alia, provided an in-principle approval to consider reducing the share capital the Company by such number of equity shares which is equal to the number of Subscription Shares, by cancelling and extinguishing 59,55,950 (Fifty Nine Lakh Fifty Five thousand Nine Hundred and Fifty) Equity Shares of Rs. 10/ (Rupees Ten Only) each held by promoter and Public Shareholders, without payment of any consideration.
- g. The proposed reduction of equity share capital of the Company would not have any adverse effect on the creditors and employees of the Company or the Company's ability to fulfill its commitments or meet its obligations in the ordinary course of business as there is no payout resulting from the proposed capital reduction.
- h. The reduction of capital in the manner proposed would be beneficial to all the shareholders of the Company as the same shall ensure that the total equity share capital of the Company remains unchanged.
- ii. Impact of the Scheme on the shareholders:**
- a. Upon confirmation of Reduction of Capital by NCLT and approval of the aforesaid authorities becoming effective and operative, 59,55,950 (Fifty nine Lakhs Fifty Five thousand Nine Hundred and Fifty) Equity Shares of Rs. 10/- (Rupees Ten Only) each of the Company held by all its members shall stand cancelled, extinguished and rendered invalid.
- b. There is no detrimental impact on the shareholders and this reduction shall further allow the creation of distributable reserves for dividend which are held up due to accumulated losses.

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iii. Cost Benefit analysis of the Scheme:

- a. The financial restructuring will help the Company to reflect the true shareholder value which would place the Company in a position to pay dividend or raise capital in future at lower interest cost.
- b. The Scheme of Capital Reduction does not involve any direct Cost to the Company as there is no payment pay-out involved to any of the shareholder or other stakeholders.

iv. Recommendation of the Independent Directors:

Taking into consideration the proposed Scheme, Fairness Opinion made, Accounting Treatment Certificate, needs, rationale and impact of the Scheme and cost benefits analysis, the Independent Directors confirms that the proposed Scheme is not detrimental to the shareholders of the Company and is in the best interest of the Company and its shareholders, creditors and all stakeholders. Thus, the Independent Directors here by recommends the proposed Scheme to the Board of Directors of the Company for its consideration and approval.

**For and On behalf of Independent Directors Committee of
Padmanabh Industries Limited**



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Viren Makwana
Chairman of Independent Directors Committee

Date: 30.06.2023
Place: Ahmedabad

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